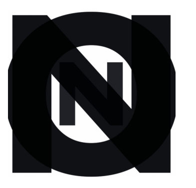
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TIM DI MUZIO 2018-01-23

ARE WE HEADING FOR ANOTHER ECONOMIC CRASH?

ECONOFICTION CAPITAL, CRASH, CRISES, FINANCE, MARXISM

The short answer is yes. However, the big question has to do with timing and how the crash will be experienced and by whom. Typically, an economic crash means that the value of owned income-generating assets like stocks (shares in companies) are radically devalued. For instance, at the height of the Global Financial Crisis, the market capitalization of all listed firms stood just above US$60 trillion and within a few months that was cut roughly in half. The crisis was of course related to the housing market in the United States as everyone knows, but it was far broader in its reach since it led investors to suspect that the banks would freeze credit in a time of record high oil prices. And in a capitalist economy, where the money supply increases by the extension of credit/debt to businesses and individuals, lack of faith in the expansion of credit is a real killer of expected future earnings.

There will likely be another stock market devaluation in the future caused by a fear of lesser future expected earnings, but the upcoming crisis that will shake capitalism to its core relates to three factors. First, we have about 50 years of oil left at current production rates according to BP. So we can expect oil prices to eventually go through the roof, and since oil goes into everything from computers to gasoline, we can expect an unprecedented inflation. Second, capitalism is a cost-plus accounting system (as long noticed by C.H. Douglas) which means there is never enough purchasing power in the economy for the outstanding prices of goods and services — hence the need for credit. This gap is structural and mathematical and cannot be overcome internally. Third, in an uncertain inflationary environment, the extension of credit (new money) will be frozen or come at ever increasing interest rates, only serving to exacerbate inflation.

Predictions are notoriously wrong but I care less about the exact timing of the next crisis and choose to focus on the three factors that will lead to the clusterfuck ahead: the price of oil, the nature of capitalist accounting, and the way in which new money is produced.

answer from other authors you can read here

Foto: Stefan Paulus

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